



PJSC LUKOIL

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018



Independent Auditors' Report

To the Shareholders of PJSC LUKOIL

Opinion

We have audited the consolidated financial statements of PJSC LUKOIL (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Audited entity: Public Joint Stock Company "Oil company "LUKOIL".

Registration No. in the Unified State Register of Legal Entities 1027700035769.

Moscow, Russia.

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registration No. in the Unified State Register of Legal Entities 1027700125628.

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 11603053203.

Recoverability of Property, plant and equipment (PP&E) in exploration and production segment

Please refer to the Note 12 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
<p>Due to continuing volatility in commodity prices, there is a risk of irrecoverability of the Group's PP&E balance in exploration and production segment, which is material to the financial statements as at 31 December 2018. Because of the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgmental areas that our audit is concentrated on.</p>	<p>In this area our audit procedures included testing of the Group's budgeting procedures upon which the forecasts are based and the principles and integrity of the Group's discounted cash flow models.</p> <p>We used our own valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group. We assessed management's macroeconomic assumptions, which include both short-term and long-term views on commodity prices, inflation rates and discount rates. We compared the short-term price assumptions used by management, which represent a critical judgement, to the market forward curves. We also compared the short and long-term assumptions to views published by brokers, economists, consultancies and respected industry bodies, which provided a range of relevant third-party data points. We also considered whether the sensitivity of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of PP&E in exploration and production segment.</p>

Estimation of oil and gas reserves and resources

Please refer to the Note 4 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
<p>The estimate of oil and gas reserves and resources has a significant impact on the financial statements, particularly impairment testing and depreciation, depletion and amortization (DD&A) charges. The principal risk is in relation to management's assessment of future cash flows, which are used to project the recoverability of property, plant and equipment as described above.</p>	<p>In this area our audit procedures included the assessment of the competence, capabilities and objectivity of reservoir engineers, to satisfy ourselves they were appropriately qualified to carry out the volumes estimation. Where volumetric movements had a material impact on the consolidated financial statements, we validated these volumes against underlying information and documentation, along with checking that assumptions used to estimate reserves and resources were made in compliance with relevant regulations.</p>

Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion & Analysis of Financial Condition and Results of Operations but does not include the consolidated financial statements and our auditors' report thereon, which we obtained prior to the date of this auditors' report, and the Annual Report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures

responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is:

A.I. Oussov
JSC "KPMG"
Moscow, Russia



4 March 2019

PJSC LUKOIL
Consolidated Statement of Financial Position
(Millions of Russian rubles)

	Note	31 December 2018	31 December 2017
Assets			
Current assets			
Cash and cash equivalents	6	492,650	330,390
Accounts receivable, net	7	429,945	418,272
Other current financial assets		26,200	19,561
Inventories	8	381,737	398,186
Prepaid taxes	9	95,611	87,338
Other current assets	10	52,336	54,367
Total current assets		1,478,479	1,308,114
Property, plant and equipment	12	3,829,164	3,575,165
Investments in associates and joint ventures	11	228,053	164,286
Other non-current financial assets	13	82,568	79,717
Deferred income tax assets	26	31,041	25,128
Goodwill and other intangible assets	14	41,765	41,304
Other non-current assets		41,312	32,501
Total non-current assets		4,253,903	3,918,101
Total assets		5,732,382	5,226,215
Liabilities and equity			
Current liabilities			
Accounts payable	15	547,128	559,977
Short-term borrowings and current portion of long-term debt	16	99,625	128,713
Taxes payable	18	123,974	118,484
Provisions	20, 21	38,266	58,253
Other current liabilities	19	105,567	93,420
Total current liabilities		914,560	958,847
Long-term debt	17	435,422	487,647
Deferred income tax liabilities	26	258,836	237,980
Provisions	20, 21	47,923	47,962
Other non-current liabilities		2,115	3,380
Total non-current liabilities		744,296	776,969
Total liabilities		1,658,856	1,735,816
Equity	22		
Share capital		1,015	1,151
Treasury shares		(134,810)	(251,089)
Additional paid-in capital		39,173	129,641
Other reserves		196,554	27,090
Retained earnings		3,963,628	3,576,158
Total equity attributable to PJSC LUKOIL shareholders		4,065,560	3,482,951
Non-controlling interests		7,966	7,448
Total equity		4,073,526	3,490,399
Total liabilities and equity		5,732,382	5,226,215

 President of PJSC LUKOIL
 Alekperov V.Y.

 Chief accountant of PJSC LUKOIL
 Verkhov V.A.

The accompanying notes are an integral part of these consolidated financial statements.

PJSC LUKOIL
Consolidated Statement of Profit or Loss and Other Comprehensive Income
(Millions of Russian rubles, unless otherwise noted)

	Note	2018	2017
Revenues			
Sales (including excise and export tariffs)	31	8,035,889	5,936,705
Costs and other deductions			
Operating expenses		(464,467)	(456,765)
Cost of purchased crude oil, gas and products		(4,534,244)	(3,129,864)
Transportation expenses		(270,153)	(272,792)
Selling, general and administrative expenses		(192,433)	(165,331)
Depreciation, depletion and amortisation		(343,085)	(325,054)
Taxes other than income taxes		(899,383)	(606,510)
Excise and export tariffs		(556,827)	(461,525)
Exploration expenses		(3,582)	(12,348)
Profit from operating activities		771,715	506,516
Finance income	24	19,530	15,151
Finance costs	24	(38,298)	(27,331)
Equity share in income of affiliates	11	25,243	16,864
Foreign exchange gain (loss)		33,763	(19,948)
Other (expenses) income	25	(38,934)	32,932
Profit before income taxes		773,019	524,184
Current income taxes		(137,062)	(99,976)
Deferred income taxes		(14,855)	(3,786)
Total income tax expense	26	(151,917)	(103,762)
Profit for the year		621,102	420,422
Profit for the year attributable to non-controlling interests		(1,928)	(1,617)
Profit for the year attributable to PJSC LUKOIL shareholders		619,174	418,805
Other comprehensive income (loss), net of income taxes			
<i>Items that may be reclassified to profit or loss:</i>			
Foreign currency translation differences for foreign operations		172,037	2,626
<i>Items that will never be reclassified to profit or loss:</i>			
Change in fair value of financial assets at fair value through other comprehensive income		(2,393)	(2,180)
Remeasurements of defined benefit liability/asset of pension plan	21	(196)	(2,325)
Other comprehensive income (loss)		169,448	(1,879)
Total comprehensive income for the year		790,550	418,543
Total comprehensive income for the year attributable to non-controlling interests		(1,912)	(1,650)
Total comprehensive income for the year attributable to PJSC LUKOIL shareholders		788,638	416,893
Earnings per share of common stock attributable to PJSC LUKOIL shareholders (in Russian rubles):			
Basic	22	874.47	589.14
Diluted		865.19	589.14

The accompanying notes are an integral part of these consolidated financial statements.

PJSC LUKOIL
Consolidated Statement of Changes in Equity
(Millions of Russian rubles)

	Share capital	Treasury shares	Additional paid-in capital	Other reserves	Retained earnings	Total equity attributable to PJSC LUKOIL shareholders	Non-controlling interests	Total equity
31 December 2017	1,151	(251,089)	129,641	27,090	3,576,158	3,482,951	7,448	3,490,399
Adjustment on adoption of IFRS 9, net of tax	-	-	-	-	(6,831)	(6,831)	-	(6,831)
1 January 2018	1,151	(251,089)	129,641	27,090	3,569,327	3,476,120	7,448	3,483,568
Profit for the year	-	-	-	-	619,174	619,174	1,928	621,102
Other comprehensive income	-	-	-	169,464	-	169,464	(16)	169,448
Total comprehensive income				169,464	619,174	788,638	1,912	790,550
Dividends on common stock	-	-	-	-	(158,635)	(158,635)	-	(158,635)
Stock purchased	-	(62,916)	-	-	-	(62,916)	-	(62,916)
Equity-settled share-based compensation plan	-	-	-	-	22,284	22,284	-	22,284
Share capital reduction	(136)	179,195	(90,537)	-	(88,522)	-	-	-
Changes in non-controlling interests	-	-	69	-	-	69	(1,394)	(1,325)
31 December 2018	1,015	(134,810)	39,173	196,554	3,963,628	4,065,560	7,966	4,073,526
31 December 2016	1,151	(241,615)	129,514	28,975	3,302,855	3,220,880	6,784	3,227,664
Profit for the year	-	-	-	-	418,805	418,805	1,617	420,422
Other comprehensive income:	-	-	-	(1,885)	(27)	(1,912)	33	(1,879)
Total comprehensive income (loss)				(1,885)	418,778	416,893	1,650	418,543
Dividends on common shares	-	-	-	-	(145,475)	(145,475)	-	(145,475)
Stock purchased	-	(9,474)	-	-	-	(9,474)	-	(9,474)
Changes in non-controlling interests	-	-	127	-	-	127	(986)	(859)
31 December 2017	1,151	(251,089)	129,641	27,090	3,576,158	3,482,951	7,448	3,490,399

The accompanying notes are an integral part of these consolidated financial statements.

PJSC LUKOIL
Consolidated Statement of Cash Flows
(Millions of Russian rubles)

	Note	2018	2017
Cash flows from operating activities			
Profit for the year attributable to PJSC LUKOIL shareholders		619,174	418,805
Adjustments for non-cash items:			
Depreciation, depletion and amortisation		343,085	325,054
Equity share in income of affiliates, net of dividends received		(17,956)	(7,401)
Dry hole write-offs		1,667	9,445
Loss (gain) on disposals and impairments of assets		26,061	(39,351)
Income tax expense		151,917	103,762
Non-cash foreign exchange (gain) loss		(33,041)	20,917
Finance income		(19,530)	(15,151)
Finance costs		38,298	27,331
Allowance for expected credit losses		(949)	6,139
Equity-settled share-based compensation plan		31,359	-
All other items – net		6,083	4,020
Changes in operating assets and liabilities:			
Trade accounts receivable		23,877	(84,055)
Inventories		71,565	(9,350)
Accounts payable		(92,508)	27,720
Other taxes		(8,460)	21,538
Other current assets and liabilities		(28,066)	19,164
Income tax paid		(133,064)	(88,323)
Dividends received		7,527	7,907
Interests received		19,612	10,319
Net cash provided by operating activities		1,006,651	758,490
Cash flows from investing activities			
Acquisition of licenses		(153)	(612)
Capital expenditures		(451,526)	(511,496)
Proceeds from sale of property, plant and equipment		4,765	1,649
Purchases of financial assets		(7,535)	(5,926)
Proceeds from sale of financial assets		36,309	12,309
Sale of subsidiaries, net of cash disposed		-	80,939
Sale of equity method affiliates		-	957
Acquisitions of subsidiaries, net of cash acquired		-	(7,391)
Acquisitions of equity method affiliates		(2,252)	(3,715)
Net cash used in investing activities		(420,392)	(433,286)
Cash flows from financing activities			
Proceeds from issuance of short-term borrowings		19,502	9,526
Principal repayments of short-term borrowings		(10,909)	(7,575)
Proceeds from issuance of long-term debt		39,786	68,049
Principal repayments of long-term debt		(256,771)	(127,606)
Interests paid		(39,921)	(38,872)
Dividends paid on Company common shares		(158,370)	(138,810)
Dividends paid to non-controlling interest shareholders		(1,995)	(2,689)
Financing received from non-controlling interest shareholders		118	31
Purchase of Company's stock		(59,993)	(9,474)
Sale of non-controlling interests		4	30
Purchases of non-controlling interest		-	(5)
Net cash used in financing activities		(468,549)	(247,395)
Effect of exchange rate changes on cash and cash equivalents		44,550	(8,786)
Net increase in cash and cash equivalents		162,260	69,023
Cash and cash equivalents at beginning of year		330,390	261,367
Cash and cash equivalents at end of year	6	492,650	330,390

The accompanying notes are an integral part of these consolidated financial statements.

Note 1. Organisation and environment

The primary activities of PJSC LUKOIL (the “Company”) and its subsidiaries (together, the “Group”) are oil exploration, production, refining, marketing and distribution. The Company is the ultimate parent entity of this vertically integrated group of companies.

The Group was established in accordance with Presidential Decree No. 1403, issued on 17 November 1992. Under this decree, on 5 April 1993, the Government of the Russian Federation transferred to the Company 51% of the voting shares of fifteen enterprises. Under Government Resolution No. 861 issued on 1 September 1995, a further nine enterprises were transferred to the Group during 1995. Since 1995, the Group has carried out a share exchange program to increase its shareholding in each of the twenty-four founding subsidiaries to 100%.

From formation, the Group has expanded substantially through consolidation of its interests, acquisition of new companies and establishment of new businesses.

Business and economic environment

The accompanying consolidated financial statements reflect management’s assessment of the impact of the business environment in the countries in which the Group operates on the operations and the financial position of the Group. The future business environments may differ from management’s assessment.

Note 2. Basis of preparation

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

These consolidated financial statements have been prepared on a historical cost basis, except certain assets and liabilities measured at fair value.

The consolidated financial statements were authorised by the President of the Company on 4 March 2019.

Functional and presentation currency

The functional currency of each of the Group’s consolidated companies is the currency of the primary economic environment in which the company operates. The management has analysed factors that influence the choice of functional currency and has determined the functional currency for each Group company. For the majority of them the functional currency is the local currency. The functional currency of the Company is the Russian ruble (“RUB”).

The presentation currency of the Group is the RUB. All financial information presented in the RUB has been rounded to the nearest million, except when otherwise indicated.

The results and financial position of Group companies whose functional currency is different from the presentation currency of the Group are translated into presentation currency using the following procedures. Assets and liabilities are translated at period-end exchange rates, income and expenses are translated at rates which approximate actual rates at the date of the transaction. Resulting exchange differences are recognised in other comprehensive income.

Note 3. Summary of significant accounting policies

Principles of consolidation

These consolidated financial statements include the financial position and results of operations of the Company and controlled subsidiaries. The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Investments in companies that the Group does not control, but where it has the ability to exercise significant influence (Group's interests are between 20% and 50%) over operating and financial policies, are accounted for using the equity method. These investments include the Group's interests in associates, joint ventures and investments where the Company owns the majority of the voting interest but has no control. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement.

Interests in associates and joint ventures are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Group's share in jointly controlled operations is recognised in the consolidated financial statements based on its share in assets, liabilities, income and expenses. Jointly controlled operations are arrangements in which parties that have joint control over operating or financial policies have respective rights to use assets and responsibility for liabilities in the arrangements.

Business combinations

For each business combination the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of previous transactions. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Non-controlling interests

Non-controlling interests are measured at their proportionate share of the fair value of acquiree's identifiable net assets at the acquisition date.

Note 3. Summary of significant accounting policies (continued)

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated during the process of consolidation. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in translation are recognised in profit or loss, except for differences arising on the translation of financial assets measured at fair value through other comprehensive income which are recognised in other comprehensive income.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to the presentation currency at exchange rates at the dates of the transactions. Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the foreign operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of in a way that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss. When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such item form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

Revenues

Revenues are recognised when a customer obtains control of the goods or services which usually occurs when the title is passed, provided that risks and rewards of ownership are assumed by the customer and the customer obtains obligation to pay for the goods or services.

Note 3. Summary of significant accounting policies (continued)

Revenues include excise on petroleum products' sales and duties on export sales of crude oil and petroleum products.

Revenue from the production of oil and natural gas in which the Group has an interest with other producers is recognised based on the Group's working interest and the terms of the relevant production sharing contracts.

Revenues from non-cash sales are recognised at the fair value of the crude oil and petroleum products sold. If the fair value of the non-cash consideration cannot be reasonably estimated, the consideration shall be measured indirectly by reference to the stand-alone selling price of the goods or services promised to the customer in exchange for the consideration.

Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less.

Financial assets

The Group classifies financial assets into the following categories, as appropriate: measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss.

A financial asset is measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. However the Company may make an irrevocable election at initial recognition for particular instruments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

The Group initially recognises as financial assets loans and receivables on the date when they are originated and debt securities on the date when they are acquired. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs.

Note 3. Summary of significant accounting policies (continued)

Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Derivative instruments

The Group uses various derivative financial instruments to hedge its commodity price risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and subsequently re-measured at fair value. Resulting realised and unrealised gains or losses are presented in profit or loss on a net basis. The Group does not use hedge accounting.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories includes expenditure incurred in acquiring the inventories, production or conversion costs and other delivery costs. In the case of manufactured inventories, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The disposal of finished goods is accounted for using the first-in first-out principle, the disposal of other inventories by using the “average cost” method.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost of property, plant and equipment of major subsidiaries at 1 January 2014, the Group’s date of transition to IFRSs, was determined by reference to its fair value at that date.

The Group recognises exploration and evaluation costs using the successful efforts method. Under this method, all costs related to exploration and evaluation are capitalised and accounted for as construction in progress in the amount incurred less impairment (if any) until the discovery (or absence) of economically feasible oil and gas reserves has been established. When the technical feasibility and commercial viability of reserves extraction is confirmed, exploration and evaluation assets should be reclassified into property, plant and equipment. Prior to reclassification these assets should be reviewed for impairment and impairment loss (if any) expensed to the financial results. If the exploration and evaluation activity is evaluated as unsuccessful, the costs incurred should be expensed.

Depreciation, depletion and amortisation of capitalised costs of oil and gas properties is calculated using the unit-of-production method based upon proved reserves for the cost of property acquisitions and proved developed reserves for exploration and development costs.

Depreciation, depletion and amortisation of the capitalised costs of risk service contract oil and gas properties is calculated using a depletion factor calculated as the ratio of value of the applicable crude oil production for the period to the total capitalised costs to be recovered.

Depreciation of assets not directly associated with production is calculated on a straight-line basis over the economic lives of such assets, estimated to be in the following ranges:

Buildings and constructions	5 – 40 years
Machinery and equipment	3 – 20 years

Depreciation methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

Production and related overhead costs are expensed as incurred.

Note 3. Summary of significant accounting policies (continued)

In addition to production assets, certain Group companies also maintain and construct social assets for the use of local communities. Such assets are capitalised only to the extent that they are expected to result in future economic benefits to the Group. If capitalised, they are depreciated over their estimated economic lives.

Impairment of non-current non-financial assets

The carrying amounts of the Group's non-current non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or related cash-generating unit ("CGU").

Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to group of CGUs that are expected to benefit from the synergies of the combination. The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

Significant unproved properties are assessed for impairment individually on a regular basis and any estimated impairment is charged to expense.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Asset retirement obligations

The Group records the present value of the estimated future costs to settle its legal obligations to abandon, dismantle or otherwise retire tangible non-current non-financial assets in the period in which the liability is incurred. A corresponding increase in the carrying amount of the related non-current non-financial assets is also recorded. Subsequently, the liability is accreted for the passage of time and the related asset is depreciated using the same method as asset to be abandoned, dismantled or otherwise retired. Changes in the estimates of asset retirement obligations ("ARO") occur as a result of changes in cost and timing of liquidation or change of discount rates and are accounted as part of cost of property, plant and equipment in the current period.

Assets classified as held for sale

Assets classified as held for sale are separately presented in the consolidated statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities classified as held for sale are presented in current assets and liabilities of the consolidated statement of financial position.

Note 3. Summary of significant accounting policies (continued)

Income taxes

Deferred income tax assets and liabilities are recognised in respect of the future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities for the purposes of the consolidated statement of financial position and their respective tax bases. But as opposed to deferred tax liabilities, deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. Similarly a deferred tax asset shall be recognised for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be available. At the end of each reporting period realizability of deferred tax assets (both recognised and unrecognised) should be reassessed. In case of existence of previously unrecognised deferred tax assets, they can be recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse and the assets be recovered and liabilities settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognised in profit or loss in the reporting period which includes the enactment date.

Employee benefits

Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Treasury shares

Purchases by Group companies of the Company's outstanding shares are recorded at cost and classified as treasury shares within equity. Shares shown as Authorised and Issued include treasury shares. Shares shown as Outstanding do not include treasury shares.

Note 3. Summary of significant accounting policies (continued)

Earnings per share

Basic earnings per share is computed by dividing profit available for distribution to common shareholders of the Company by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per share is determined by adjusting profit available for distribution to common shareholders of the Company and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

Provisions and contingencies

Certain conditions may exist as of the consolidated financial statements date, which may result in losses to the Group but the impact of which will only be resolved when one or more future events occur or fail to occur.

Liabilities of the Group with high level of probability of loss are recognised in the consolidated financial statements as provisions. Liabilities of the Group with the level of probability that do not meet the conditions in order to be recognised as provisions are considered to be contingent liabilities. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements if probability of disposal of certain resources aimed to settle this liability is not remote. If probability of disposal of certain resources is remote the information about such contingencies is not disclosed.

Environmental expenditures

Estimated losses from environmental remediation obligations are generally recognised no later than completion of remedial feasibility studies. Group companies accrue for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change.

Share-based payments

The Group accounts for cash-settled share-based payment awards to employees at fair value on the grant date and as of each reporting date. Expenses are recognised over the vesting period. Equity-settled share-based payment awards to employees are valued at fair value on the grant date and expensed over the vesting period.

Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of new standards IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial instruments* effective as of 1 January 2018.

Accounting policies effective before 1 January 2018

Revenues

Before 1 January 2018, revenues were recognised when title passed to customers at which point the risks and rewards of ownership were assumed by the customer and the price was fixed or determinable.

Financial assets

Before 1 January 2018, the Group classified non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Financial assets were designated at fair value through profit or loss if the Group managed such investments and made purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Directly attributable transaction costs were recognised in profit or loss as incurred.

Note 3. Summary of significant accounting policies (continued)

If the Group had the positive intent and ability to hold an investment to maturity, then such financial assets were recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they were measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables were recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables were measured at amortised cost using the effective interest method, less any impairment losses. Allowances for doubtful debts were recorded to the extent that there was a likelihood that any of the amounts due will not be collected.

Available-for-sale financial assets are non-derivative financial assets that were designated as available-for-sale or not classified in any of the above categories of financial assets. Such assets were recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they were measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, were recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment was derecognised, the cumulative gain or loss in equity was reclassified to profit or loss.

Changes in accounting policy in 2018

The following new standards which were applied for the first time in 2018 had changed the accounting policy starting from the current financial year.

IFRS 15, issued in May 2014, replaced the existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The Group adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). As permitted by IFRS 15 comparatives have not been restated. The standard does not have a material effect on the Group's consolidated financial statements.

IFRS 9, issued in July 2014, replaced the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 introduced a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

The adoption of IFRS 9 has changed the classification as follows:

- available-for-sale financial assets were reclassified to fair value through other comprehensive income category;
- loans and receivables were reclassified to amortized cost category except for loans given to associates in the amount of 76 billion RUB and to third parties in the amount of 9 billion RUB which were reclassified to fair value through profit or loss category.

The effect of adopting IFRS 9 had no impact on the carrying amounts of financial assets as of 1 January 2018 resulted from reclassification.

In respect of impairment, IFRS 9 replaced the 'incurred loss' model used in IAS 39 with a new 'expected credit loss' model. The adoption of IFRS 9 resulted in recognition of additional allowance for expected credit losses recognised directly in equity in the amount of 6,831 million RUB net of deferred income tax at 1 January 2018. As permitted by IFRS 9 comparatives have not been restated.

Note 4. Use of estimates and judgments

Preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are the following:

- estimation of oil and gas reserves;
- estimation of useful lives of property, plant and equipment;
- impairment of non-current assets;
- assessment and recognition of provisions and contingent liabilities.

Oil and gas reserves estimates that are used for the reporting purposes are made in accordance with the requirements adopted by U.S. Securities and Exchange Commission. Estimates are reassessed on an annual basis.

Note 5. New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective at 31 December 2018, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's financial results. The Group plans to adopt these pronouncements when they become effective.

IFRS 16 *Leases*, issued in January 2016, replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The nature of expenses related to new assets and liabilities recognised for operating leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

The Group will apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. According to preliminary estimates made by the Company, one-off recognition of non-current assets and financial liabilities will total 140–200 billion RUB as of 1 January 2019. The actual impact of adopting the standard on 1 January 2019 may change because the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

Note 5. New standards and interpretations not yet adopted (continued)

In June 2017, the IASB issued IFRIC 23 *Uncertainty over Income Tax Treatments*. The IFRIC clarifies that for the purposes of calculating current and deferred tax, companies should use a tax treatment of uncertainties, which will probably be accepted by the tax authorities. IFRIC 23 is effective for annual periods beginning on or after 1 January 2019. The Group is evaluating the effect of the adoption of IFRIC 23 and does not expect any material impact from its application on consolidated financial statements.

In March 2018, the IASB issued a revised version of Conceptual Framework for Financial Reporting. In particular, the revised version introduces new definitions of assets and liabilities, as well as amended definitions of income and expenses. The new version is effective for annual periods beginning on or after 1 January 2020. The Group is evaluating the effect of the adoption of the revised version of Conceptual Framework and does not expect any material impact from its application on consolidated financial statements.

Note 6. Cash and cash equivalents

	31 December 2018	31 December 2017
Cash held in RUB	201,073	70,611
Cash held in US dollars	264,538	239,405
Cash held in EUR	18,350	13,490
Cash held in other currencies	8,689	6,884
Total cash and cash equivalents	492,650	330,390

Note 7. Accounts receivable, net

	31 December 2018	31 December 2017
Trade accounts receivable (net of allowances of 23,031 million RUB and 18,777 million RUB at 31 December 2018 and 2017, respectively)	411,247	393,073
Other current accounts receivable (net of allowances of 4,767 million RUB and 3,182 million RUB at 31 December 2018 and 2017, respectively)	18,698	25,199
Total accounts receivable, net	429,945	418,272

Note 8. Inventories

	31 December 2018	31 December 2017
Crude oil and petroleum products	325,563	345,216
Materials for extraction and drilling	23,128	19,925
Materials and supplies for refining	4,084	2,999
Other goods, materials and supplies	28,962	30,046
Total inventories	381,737	398,186

Note 9. Prepaid taxes

	31 December 2018	31 December 2017
Income tax prepaid	12,165	13,543
VAT and excise tax recoverable	37,832	38,930
Export duties prepaid	23,093	15,418
VAT prepaid	18,498	15,655
Other taxes prepaid	4,023	3,792
Total prepaid taxes	95,611	87,338

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Note 10. Other current assets

	31 December 2018	31 December 2017
Advance payments	19,851	17,487
Prepaid expenses	22,139	23,072
Other assets	10,346	13,808
Total other current assets	52,336	54,367

Note 11. Investments in associates and joint ventures

Carrying value of investments in associates and joint ventures:

Name of the company	Country	Ownership			
		31 December 2018	31 December 2017	31 December 2018	31 December 2017
<i>Joint Ventures:</i>					
Tengizchevroil (TCO)	Kazakhstan	5.0%	5.0%	121,204	88,390
Caspian Pipeline Consortium (CPC)	Kazakhstan	12.5%	12.5%	39,346	27,282
South Caucasus Pipeline Company (SCPC)	Azerbaijan	10.0%	10.0%	34,789	26,965
Others				623	474
<i>Associates:</i>					
Associates				32,091	21,175
Total				228,053	164,286

TCO is engaged in development of hydrocarbon resources in Kazakhstan. The Group has classified its interest in TCO as a joint venture as it has rights to the net assets of the arrangement.

31 December 2018	TCO	CPC	SCPC	Others	Associates	Total
Current assets	187,272	22,601	9,458	3,354	57,928	280,613
Non-current assets	2,390,973	537,226	364,658	1,852	190,463	3,485,172
Current liabilities	242,501	129,442	8,303	716	57,173	438,135
Non-current liabilities	692,411	115,621	17,921	3,245	117,117	946,315
Net assets (100%)	1,643,333	314,764	347,892	1,245	74,101	2,381,335
Share in net assets	121,204	39,346	34,789	623	32,091	228,053

31 December 2017	TCO	CPC	SCPC	Others	Associates	Total
Current assets	245,662	17,397	5,037	4,319	36,489	308,904
Non-current assets	1,442,065	487,236	287,707	673	163,715	2,381,396
Current liabilities	151,856	107,246	9,104	1,248	38,201	307,655
Non-current liabilities	436,143	179,132	13,989	2,797	119,340	751,401
Net assets (100%)	1,099,728	218,255	269,651	947	42,663	1,631,244
Share in net assets	88,390	27,282	26,965	474	21,175	164,286

2018	TCO	CPC	SCPC	Others	Associates	Total
Revenues	1,080,376	137,675	27,166	8,592	317,802	1,571,611
Net income (100%)	364,678	47,238	16,001	1,794	722	430,433
Share in net income	16,097	5,905	1,600	897	744	25,243

2017	TCO	CPC	SCPC	Others	Associates	Total
Revenues	783,091	115,836	20,417	8,731	104,705	1,032,780
Net income (100%)	240,459	28,478	11,717	1,024	3,395	285,073
Share in net income	10,074	3,560	1,172	512	1,546	16,864

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Note 12. Property, plant and equipment

	Exploration and production	Refining, marketing and distribution	Other	Total
Cost				
31 December 2017	3,902,267	1,236,552	72,543	5,211,362
Additions	365,329	91,676	2,189	459,194
Capitalised borrowing costs	7,605	-	-	7,605
Disposals	(37,837)	(14,859)	(1,331)	(54,027)
Changes in estimates of ARO	(7,187)	-	-	(7,187)
Foreign currency translation differences	245,644	60,352	2,465	308,461
Other	1,003	22	16	1,041
31 December 2018	4,476,824	1,373,743	75,882	5,926,449
Depreciation and impairment				
31 December 2017	(1,230,717)	(403,445)	(15,617)	(1,649,779)
Depreciation for the period	(247,940)	(94,405)	(3,673)	(346,018)
Impairment loss	(11,093)	(634)	-	(11,727)
Disposals	26,777	7,762	619	35,158
Foreign currency translation differences	(122,439)	(23,406)	(775)	(146,620)
Other	(1,096)	460	66	(570)
31 December 2018	(1,586,508)	(513,668)	(19,380)	(2,119,556)
Advance payments for property, plant and equipment				
31 December 2017	10,732	2,717	133	13,582
31 December 2018	5,916	15,669	686	22,271
Carrying amounts				
31 December 2017	2,682,282	835,824	57,059	3,575,165
31 December 2018	2,896,232	875,744	57,188	3,829,164
Cost				
31 December 2016	3,478,050	1,155,388	70,186	4,703,624
Additions	501,892	66,634	2,292	570,818
Acquisitions through business combinations	4,471	5,180	1,067	10,718
Capitalised borrowing costs	16,487	68	-	16,555
Disposals	(35,131)	(14,564)	(1,273)	(50,968)
Changes in estimates of ARO	(5,901)	-	-	(5,901)
Foreign currency translation differences	(55,896)	24,797	(634)	(31,733)
Other	(1,705)	(951)	905	(1,751)
31 December 2017	3,902,267	1,236,552	72,543	5,211,362
Depreciation and impairment				
31 December 2016	(1,058,116)	(307,641)	(11,794)	(1,377,551)
Depreciation for the period	(218,460)	(94,681)	(3,557)	(316,698)
Impairment loss	(22,382)	(3,241)	-	(25,623)
Impairment reversal	24,193	-	-	24,193
Disposals	15,603	10,205	353	26,161
Foreign currency translation differences	28,968	(8,846)	163	20,285
Other	(523)	759	(782)	(546)
31 December 2017	(1,230,717)	(403,445)	(15,617)	(1,649,779)
Advance payments for property, plant and equipment				
31 December 2016	64,764	486	43	65,293
31 December 2017	10,732	2,717	133	13,582
Carrying amounts				
31 December 2016	2,484,698	848,233	58,435	3,391,366
31 December 2017	2,682,282	835,824	57,059	3,575,165

Note 12. Property, plant and equipment (continued)

The cost of assets under construction included in Property, plant and equipment was 335,312 million RUB and 514,886 million RUB at 31 December 2018 and 2017, respectively.

Exploration and evaluation assets

	2018	2017
1 January	86,134	69,829
Capitalised expenditures	31,770	34,266
Reclassified to development assets	(3,962)	(8,627)
Charged to expenses	(9,103)	(10,030)
Foreign currency translation differences	3,657	(510)
Other movements	(1,391)	1,206
31 December	107,105	86,134

The Company performs a regular annual impairment test of its assets. The test is based on geological models and development programs, which are revised on a regular basis, at least annually.

In the second quarter of 2018, the Group recognized an impairment loss for its exploration and production assets in Russia in the amount of 5,010 million RUB. As a result of the test, in the fourth quarter of 2018, the Group recognised an impairment loss for its exploration and production assets in Russia in the amount of 5,117 million RUB, for its international exploration and production assets in the amount of 966 million RUB and for its refining, marketing and distribution assets in the amount of 634 million RUB.

The recoverable amount of CGUs subject to impairment test in 2018 in the amount of 4,330 million RUB was determined as value in use equal to the present value of the expected cash flows. Value in use was estimated using the following discount rates: for exploration and production assets in Russia – 8.7%, for refining, marketing and distribution assets in Russia – from 12.8% to 15.6%

As a result of the test in 2017 the Group recognised an impairment loss for its exploration and production assets in Russia in the amount of 20,886 million RUB, for its international exploration and production assets in the amount of 1,496 million RUB and for its refining, marketing and distribution assets in Russia in the amount of 2,219 million RUB.

The recoverable amount of CGUs subject to impairment test in 2017 in the amount of 41,026 million RUB was determined as value in use equal to the present value of the expected cash flows. Value in use was estimated using the following discount rates: for exploration and production assets in Russia – 8.5%, for refining, marketing and distribution assets in Russia – from 11.3% to 15%.

The Group recognised an impairment reversal of 24,193 million RUB in 2017, which was mainly a result of improvement of economic parameters of our production projects in Western Siberia and European part of Russia in the amount of 22,202 million RUB. The recoverable amount of CGUs subject to impairment reversal was determined as 63,815 million RUB.

Impairment reversal and impairment loss are included in “Other income (expenses)” in the consolidated statement of profit or loss and other comprehensive income.

For impairment test purposes at 31 December 2018 the following Brent Blend price assumptions have been used: \$71.5 per barrel in 2019–2021, \$73.0 per barrel in 2022–2024, \$75.0 per barrel in 2025–2027 and \$77.0 per barrel from 2028.

Downward revisions to our oil and gas price outlook based on consensus estimates at year end by 10% may lead to further impairments, which mostly relate to our international upstream portfolio and in aggregate may be material. However, considering substantial uncertainty relevant to other assumptions that would be triggered by a 10% decrease in commodity price forecast, it is impracticable to estimate the possible effect of changes in these assumptions.

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Note 13. Other non-current financial assets

	31 December 2018	31 December 2017
Financial assets measured at fair value through other comprehensive income		
Equity instruments	3,388	5,106
Financial assets measured at amortised cost		
Long-term loans	19,468	69,840
Non-current accounts and notes receivable	2,469	4,680
Other financial assets	102	91
Financial assets measured at fair value through profit or loss		
Long-term loans	57,064	-
Other financial assets	77	-
Total other non-current financial assets	82,568	79,717

Note 14. Goodwill and other intangible assets

	Internally generated software	Other internally generated intangible assets	Acquired intangible assets	Goodwill	Total
Cost					
31 December 2017	16,413	2,968	48,335	32,247	99,963
Additions as a result of internal developments	673	1,596	-	-	2,269
Acquisitions	-	-	4,021	269	4,290
Disposals	(286)	(11)	(3,496)	-	(3,793)
Foreign currency translation differences	209	4	1,364	3,438	5,015
Other	705	(1,019)	72	(273)	(515)
31 December 2018	17,714	3,538	50,296	35,681	107,229
Amortisation and impairment					
31 December 2017	(13,282)	(699)	(34,792)	(9,886)	(58,659)
Amortisation for the year	(1,044)	(308)	(4,756)	-	(6,108)
Disposals	280	10	1,950	-	2,240
Foreign currency translation differences	(196)	(4)	(1,174)	(1,832)	(3,206)
Other	-	-	269	-	269
31 December 2018	(14,242)	(1,001)	(38,503)	(11,718)	(65,464)
Carrying amounts					
31 December 2017	3,131	2,269	13,543	22,361	41,304
31 December 2018	3,472	2,537	11,793	23,963	41,765

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Note 14. Goodwill and other intangible assets (continued)

	Internally generated software	Other internally generated intangible assets	Acquired intangible assets	Goodwill	Total
Cost					
31 December 2016	16,384	2,359	46,419	30,701	95,863
Additions as a result of internal developments	634	610	-	-	1,244
Acquisitions	-	-	16	-	16
Additions – separately acquired	-	-	4,028	-	4,028
Disposals	(580)	(4)	(1,114)	-	(1,698)
Foreign currency translation differences	(55)	(1)	(989)	1,546	501
Other	30	4	(25)	-	9
31 December 2017	16,413	2,968	48,335	32,247	99,963
Amortisation and impairment					
31 December 2016	(12,665)	(460)	(30,473)	(9,131)	(52,729)
Amortisation for the year	(1,267)	(237)	(5,886)	-	(7,390)
Impairment loss	-	-	(22)	-	(22)
Disposals	580	3	824	-	1,407
Foreign currency translation differences	68	-	647	(755)	(40)
Other	2	(5)	118	-	115
31 December 2017	(13,282)	(699)	(34,792)	(9,886)	(58,659)
Carrying amounts					
31 December 2016	3,719	1,899	15,946	21,570	43,134
31 December 2017	3,131	2,269	13,543	22,361	41,304

Goodwill was tested for impairment and no impairment was identified.

Note 15. Accounts payable

	31 December 2018	31 December 2017
Trade accounts payable	477,444	508,078
Other accounts payable	69,684	51,899
Total accounts payable	547,128	559,977

Note 16. Short-term borrowings and current portion of long-term debt

	31 December 2018	31 December 2017
Short-term borrowings from third parties	20,885	15,499
Short-term borrowings from related parties	7,843	3,170
Current portion of long-term debt	70,897	110,044
Total short-term borrowings and current portion of long-term debt	99,625	128,713

Short-term borrowings from third parties include amounts repayable in US dollars of 15,541 million RUB and 5,235 million RUB and amounts repayable in other currencies of 5,344 million RUB and 10,264 million RUB at 31 December 2018 and 2017, respectively. The weighted-average interest rate on short-term borrowings from third parties was 9.83% and 11.30% per annum at 31 December 2018 and 2017, respectively. Approximately 3% of total short-term borrowings from third parties at 31 December 2018 are secured by inventories.

Note 17. Long-term debt

	31 December 2018	31 December 2017
Long-term loans and borrowings from third parties	161,314	244,000
3.416% non-convertible US dollar bonds, maturing 2018	-	86,384
7.250% non-convertible US dollar bonds, maturing 2019	41,584	34,466
6.125% non-convertible US dollar bonds, maturing 2020	69,385	57,506
6.656% non-convertible US dollar bonds, maturing 2022	34,663	28,748
4.563% non-convertible US dollar bonds, maturing 2023	104,079	86,274
4.750% non-convertible US dollar bonds, maturing 2026	69,321	57,467
Finance lease obligations	25,973	2,846
Total long-term debt	506,319	597,691
Current portion of long-term debt	(70,897)	(110,044)
Total non-current portion of long-term debt	435,422	487,647

Long-term loans and borrowings

Long-term loans and borrowings from third parties include amounts repayable in US dollars of 137,439 million RUB and 194,251 million RUB and amounts repayable in euros of 23,875 million RUB and 49,749 million RUB at 31 December 2018 and 2017, respectively. This debt has maturity dates from 2019 through 2028. The weighted-average interest rate on long-term loans and borrowings from third parties was 4.87% and 4.33% per annum at 31 December 2018 and 2017, respectively. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. Approximately 46% of total long-term loans and borrowings from third parties at 31 December 2018 are secured by shares of an associated company, export sales and property, plant and equipment.

US dollar non-convertible bonds

In November 2016, a Group company issued non-convertible bonds totaling \$1 billion (69.5 billion RUB). The bonds were placed with a maturity of 10 years and a coupon yield of 4.750% per annum. All bonds were placed at face value and have a half year coupon period.

In April 2013, a Group company issued two tranches of non-convertible bonds totaling \$3 billion (208.4 billion RUB). The first tranche totaling \$1.5 billion (104.2 billion RUB) was placed with a maturity of 5 years and a coupon yield of 3.416% per annum. The second tranche totaling \$1.5 billion (104.2 billion RUB) was placed with a maturity of 10 years and a coupon yield of 4.563% per annum. All bonds were placed at face value and have a half year coupon period. In April 2018, a Group company redeemed all issued bonds of the first tranche in accordance with the conditions of the bond issue.

In November 2010, a Group company issued two tranches of non-convertible bonds totaling \$1 billion (69.5 billion RUB) with a maturity of 10 years and a coupon yield of 6.125%. The first tranche totaling \$800 million (55.6 billion RUB) was placed at a price of 99.081% of the bond's face value with a resulting yield to maturity of 6.250%. The second tranche totaling \$200 million (13.9 billion RUB) was placed at a price of 102.44% of the bond's face value with a resulting yield to maturity of 5.80%. All bonds have a half year coupon period.

In November 2009, a Group company issued two tranches of non-convertible bonds totaling \$1.5 billion (104.2 billion RUB). The first tranche totaling \$900 million (62.5 billion RUB) with a coupon yield of 6.375% per annum was placed with a maturity of 5 years at a price of 99.474% of the bond's face value with a resulting yield to maturity of 6.500%. The second tranche totaling \$600 million (41.7 billion RUB) with a coupon yield of 7.250% per annum was placed with a maturity of 10 years at a price of 99.127% of the bond's face value with a resulting yield to maturity of 7.375%. All bonds have a half year coupon period. In November 2014, a Group company redeemed all issued bonds of the first tranche in accordance with the conditions of the bond issue.

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Note 17. Long-term debt (continued)

In June 2007, a Group company issued two tranches of non-convertible bonds totaling \$1 billion (69.5 billion RUB). \$500 million (34.7 billion RUB) were placed with a maturity of 10 years and a coupon yield of 6.356% per annum. Another \$500 million (34.7 billion RUB) were placed with a maturity of 15 years and a coupon yield of 6.656% per annum. All bonds were placed at face value and have a half year coupon period. In June 2017, a Group company redeemed all issued bonds of the first tranche in accordance with the conditions of the bond issue.

Reconciliation of liabilities arising from financing activities

	Loans and borrowings	Bonds	Finance lease obligations	Other liabilities	Total
31 December 2017	262,669	350,845	2,846	64,566	680,926
Changes from financing cash flows:					
Proceeds from issuance of short-term borrowings	19,502	-	-	-	19,502
Principal repayments of short-term borrowings	(10,909)	-	-	-	(10,909)
Proceeds from issuance of long-term debt	39,786	-	-	-	39,786
Principal repayments of long-term debt	(161,568)	(92,648)	(2,555)	-	(256,771)
Interest paid	-	-	-	(39,921)	(39,921)
Dividends paid on Company common stock	-	-	-	(158,370)	(158,370)
Total changes from financing cash flows	(113,189)	(92,648)	(2,555)	(198,291)	(406,683)
Other changes:					
Interest accrued	-	-	-	39,053	39,053
Dividends declared on Company common stock	-	-	-	158,635	158,635
The effect of changes in foreign exchange rates	39,824	60,749	72	1,124	101,769
Other changes	738	86	25,610	8,833	35,267
Total other changes	40,562	60,835	25,682	207,645	334,724
31 December 2018	190,042	319,032	25,973	73,920	608,967

Note 18. Taxes payable

	31 December 2018	31 December 2017
Income tax payable	11,316	8,963
Mineral extraction tax	46,532	47,175
VAT	34,823	34,147
Excise taxes	18,887	17,750
Property tax	4,985	3,652
Other taxes	7,431	6,797
Total taxes payable	123,974	118,484

Note 19. Other current liabilities

	31 December 2018	31 December 2017
Advances received	30,249	27,698
Dividends payable	72,103	62,254
Other	3,215	3,468
Total other current liabilities	105,567	93,420

Note 20. Provisions

	Asset retirement obligations	Provision for employee compensations	Provision for environmental liabilities	Pension provisions	Provision for unused vacations	Other provisions	Total
31 December 2018	36,424	9,401	4,014	8,910	5,968	21,472	86,189
Incl.: Non-current	36,042	263	1,604	5,916	178	3,920	47,923
Current	382	9,138	2,410	2,994	5,790	17,552	38,266
31 December 2017	36,668	36,172	4,176	10,367	5,472	13,360	106,215
Incl.: Non-current	36,478	14	1,683	8,292	54	1,441	47,962
Current	190	36,158	2,493	2,075	5,418	11,919	58,253

Asset retirement obligations changed as follows during 2018 and 2017:

	2018	2017
1 January	36,668	37,460
Provisions made during the year	3,026	4,951
Reversal of provisions	(220)	(200)
Provisions used during the year	(207)	(1,322)
Accretion expense	2,963	2,687
Change in discount rate	(1,331)	(2,378)
Changes in estimates	(7,405)	(4,073)
Foreign currency translation differences	2,902	(666)
Other movements	28	209
31 December	36,424	36,668

Note 21. Pension obligation

The Group sponsors a postretirement defined benefit pension plan that covers the majority of the Group's employees. One type of pension plan is based on years of service, final remuneration levels as of the end of 2003 and employee gratitude, received during the period of work. The other type of pension plan is based on salary. These plans are solely financed by Group companies. Simultaneously employees have the right to receive pension benefits with a partial payment by the Group (up to 4% of the annual salary of the employee).

Plan assets and pensions payments are managed by a non-state pension fund, JSC "NPF Otkritie" (former "NPF LUKOIL-GARANT"). The Group also provides several long-term social benefits, including lump-sum death-in-service benefit, in case of disability and upon retirement payments. Also certain payments are received by retired employees upon reaching a certain old age or invalidity.

The Company uses 31 December as the measurement date for its pension obligation. An independent actuary has assessed the benefit obligations at 31 December 2018 and 2017.

The following table sets out movement in the net liabilities before taxation during 2018 and 2017.

	2018	2017
1 January	10,367	8,049
Components of defined benefit costs recorded in profit or loss	518	1,009
Components of defined benefit costs recorded in other comprehensive loss	228	2,709
Contributions from employer	(1,451)	(1,702)
Benefits paid	(785)	(666)
Opening balance adjustment	33	6
Liability assumed in business combination	-	119
Other	-	843
31 December	8,910	10,367

Note 22. Equity

Common shares

	31 December 2018	31 December 2017
	(thousands of shares)	(thousands of shares)
Authorised and issued common shares, par value of 0.025 RUB each	750,000	850,563
Treasury shares	(53,107)	(140,930)
Outstanding common shares	696,893	709,633

According to the resolution of the extraordinary general shareholders' meeting held on 24 August 2018, 100,563 thousands of common shares of the Company were cancelled on 1 November 2018. As a result the number of authorized and issued common shares was reduced to 750 million.

In the second half of 2018, under the buy-back programme, a Group company repurchased on an open market 12,740 thousands of common shares of the Company for 62,916 million RUB.

Dividends

At the extraordinary shareholders' meeting on 3 December 2018, interim dividends for 2018 were approved in the amount of 95.00 RUB per common share.

At the annual general shareholders' meeting on 21 June 2018, dividends for 2017 were approved in the amount of 130.00 RUB per common share. At the extraordinary general shareholders' meeting on 4 December 2017, interim dividends for 2017 were approved in the amount of 85.00 RUB per common share. Total dividends for 2017 were approved in the amount of 215.00 RUB per common share.

Dividends on the Company's shares payable of 70,610 million RUB and 61,283 million RUB are included in "Other current liabilities" in the consolidated statement of financial position at 31 December 2018 and 2017, respectively.

Earnings per share

The calculation of basic and diluted earnings per share was as follows:

	2018	2017
Profit for the year attributable to PJSC LUKOIL	619,174	418,805
Weighted average number of common shares (thousands of shares)	708,059	710,871
Dilutive effect of equity-settled share-based compensation plan (thousands of shares)	7,588	-
Weighted average number of common shares, assuming dilution (thousands of shares)	715,647	710,871
Earnings per share of common stock attributable to PJSC LUKOIL (in Russian rubles):		
Basic	874.47	589.14
Diluted	865.19	589.14

Note 23. Personnel expenses

Personnel expenses were as follows:

	2018	2017
Salary	135,671	127,851
Statutory insurance contributions	32,531	35,387
Share-based compensation	31,300	1,135
Total personnel expenses	199,502	164,373

Note 24. Finance income and costs

Finance income was as follows:

	2018	2017
Interest income from deposits	10,595	5,222
Interest income from loans	6,484	6,715
Other finance income	2,451	3,214
Total finance income	19,530	15,151

Finance costs were as follows:

	2018	2017
Interest expense	32,191	23,116
Accretion expense	2,994	2,705
Other finance costs	3,113	1,510
Total finance costs	38,298	27,331

Note 25. Other income and expenses

Other income was as follows:

	2018	2017
Gain on disposal of assets	2,919	58,233
Reversal of impairment of assets	-	28,448
Other income	18,351	18,176
Total other income	21,270	104,857

At the end of 2016, the Company entered into a contract with a company of the “Otkritie Holding” group to sell the Group’s 100% interest in JSC “Arkhangelskgeoldobycha” (“AGD”), a company developing the diamond field named after V.P. Grib located in Arkhangelsk region of Russia. The transaction in the amount of Russian ruble equivalent of \$1.45 billion was completed on 24 May 2017 after all necessary governmental approvals were received. As a result in 2017 the Group recognized profit before income tax in the amount of 48 billion RUB that is included in “Other income (expenses)” in the consolidated statement of profit or loss and other comprehensive income (profit after income tax – 38 billion RUB).

Other expenses were as follows:

	2018	2017
Impairment loss	11,727	31,386
Loss on disposal of assets	17,253	15,944
Charity expenses	8,785	9,009
Other expenses	22,439	15,586
Total other expenses	60,204	71,925

Note 26. Income tax

Operations in the Russian Federation are subject to a 20% income tax rate. For the period from 2017 till 2024 (inclusive) the Federal income tax rate is set as 3.0% and the regional income tax rate varies from 12.5% to 17.0% at the discretion of the regional administration. Legislation sets certain restrictions on the application of the reduced regional rates.

The Group’s foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they operate.

A number of Group companies in Russia are paying income tax as a consolidated taxpayers’ group (“CTG”). This allows taxpayers to offset taxable losses generated by certain participants of a CTG against taxable profits of other participants of the CTG.

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Note 26. Income tax (continued)

Income tax was as follows:

	2018	2017
Current income tax expense for the year	136,996	97,573
Adjustment for prior periods	66	2,403
Current income taxes	137,062	99,976
Deferred income tax	14,855	3,786
Total income tax expense	151,917	103,762

The following table is a reconciliation of the amount of income tax expense that would result from applying the Russian combined statutory income tax rate of 20% applicable to the Company to profit before income taxes to total income taxes.

	2018	2017
Profit before income taxes	773,019	524,184
Notional income tax at the Russian statutory rate	154,604	104,837
Increase (reduction) in income tax due to:		
Non-deductible items, net	21,777	14,614
Domestic and foreign rate differences	(25,932)	(16,823)
Change in recognised deductible temporary differences	1,468	1,134
Total income tax expense	151,917	103,762

The following table sets out the tax effects of each type of temporary differences which give rise to deferred income tax assets and liabilities.

	31 December 2018	31 December 2017
Property, plant and equipment	8,251	6,666
Inventories	5,972	6,010
Accounts receivable	1,106	922
Accounts payable and provisions	15,874	10,931
Tax loss carry forward	32,989	33,516
Other	532	1,483
Total deferred income tax assets	64,724	59,528
Set off of tax	(33,683)	(34,400)
Deferred income tax assets	31,041	25,128
Property, plant and equipment	(267,422)	(254,956)
Investments	(6,949)	(3,348)
Inventories	(4,748)	(6,187)
Accounts receivable	(10,251)	(5,065)
Accounts payable and provisions	(902)	(63)
Other	(2,247)	(2,761)
Total deferred income tax liabilities	(292,519)	(272,380)
Set off of tax	33,683	34,400
Deferred income tax liabilities	(258,836)	(237,980)
Net deferred income tax liabilities	(227,795)	(212,852)

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Note 26. Income tax (continued)

	31 December 2017	Recognition in profit or loss	Acquisitions and disposal	Foreign currency translation differences and other	31 December 2018
Property, plant and equipment	(248,290)	(8,254)	-	(2,627)	(259,171)
Investments	(3,348)	(4,121)	-	520	(6,949)
Inventories	(177)	1,603	-	(202)	1,224
Accounts receivable	(4,143)	(4,083)	-	(919)	(9,145)
Accounts payable and provisions	10,868	1,912	-	2,192	14,972
Tax loss carry forward	33,516	(2,243)	-	1,716	32,989
Other	(1,278)	331	-	(768)	(1,715)
Net deferred income tax liabilities	(212,852)	(14,855)	-	(88)	(227,795)

	31 December 2016	Recognition in profit or loss	Acquisitions and disposal	Foreign currency translation differences and other	31 December 2017
Property, plant and equipment	(245,169)	(3,194)	(918)	991	(248,290)
Investments	(3,452)	94	-	10	(3,348)
Inventories	(2,423)	2,249	-	(3)	(177)
Accounts receivable	(4,003)	(322)	-	182	(4,143)
Accounts payable and provisions	10,166	389	(2)	315	10,868
Tax loss carry forward	35,086	(2,665)	-	1,095	33,516
Other	(937)	(337)	3	(7)	(1,278)
Net deferred income tax liabilities	(210,732)	(3,786)	(917)	2,583	(212,852)

Deferred tax assets have not been recognised in respect of the temporary differences related to the following items:

	31 December 2018	31 December 2017
Property, plant and equipment	2,416	2,433
Tax loss carry forward	12,695	10,790
Other	1,186	1,090
Total unrecognised deferred tax assets	16,297	14,313

Management believes that it is not probable that taxable profit will be available against which these deductible temporary differences can be utilised.

Amounts recognised in other comprehensive income during 2018:

	Before tax	Tax	Net of tax
Foreign currency translation differences for foreign operations	172,037	-	172,037
Change in fair value of financial assets at fair value through other comprehensive income	(2,393)	-	(2,393)
Remeasurements of defined benefit liability/asset of pension plan	(228)	32	(196)
Total	169,416	32	169,448

Note 26. Income tax (continued)

Amounts recognised in other comprehensive income during 2017:

	Before tax	Tax	Net of tax
Foreign currency translation differences for foreign operations	2,626	-	2,626
Change in fair value of available-for-sale financial assets	(2,180)	-	(2,180)
Remeasurements of defined benefit liability/asset of pension plan	(2,709)	384	(2,325)
Total	(2,263)	384	(1,879)

Retained earnings of foreign subsidiaries for which deferred taxation has not been provided included 736,680 million RUB and 585,547 million RUB at 31 December 2018 and 2017, respectively. This liability was not recognised because the Group considers such amounts to be indefinitely invested, i.e. management believes that they will not be returned in the foreseeable future. Moreover the Group controls the dividend policy of its subsidiaries and is able to veto the payment of dividends.

The consequences of taxation in Russia of certain profits of controlled foreign corporations in accordance with applicable tax legislation are accounted for within current and deferred tax liabilities.

Note 27. Operating lease

At 31 December 2018 and 2017, Group companies had commitments primarily for the lease of vessels, tank-cars, storage facilities and petroleum distribution outlets. Commitments for minimum rentals under non-cancellable leases are payable as follows:

	31 December 2018	31 December 2017
Less than a year	27,333	24,753
1-5 years	61,836	54,917
More than 5 years	93,573	88,277
Total	182,742	167,947

Note 28. Commitments and contingencies

Capital commitments

At 31 December 2018, capital commitments of the Group relating to construction and acquisition of property, plant and equipment are evaluated as 473,615 million RUB.

Insurance

The insurance industry in the Russian Federation and certain other areas where the Group has operations is in the course of development. Management believes that the Group has adequate property damage coverage for its main production assets. In respect of third party liability for property and environmental damage arising from accidents on Group property or relating to Group operations, the Group has insurance coverage that is generally higher than insurance limits set by the local legal requirements. Management believes that the Group has adequate insurance coverage of the risks, which could have a material effect on the Group's operations and financial position.

Environmental liabilities

Group companies and their predecessor companies have operated in the Russian Federation and other countries for many years and, within certain parts of the operations, environmental related problems have developed. Environmental regulations are currently under consideration in the Russian Federation and other areas where the Group has operations. Group companies routinely assess and evaluate their obligations in response to new and changing legislation.

Note 28. Commitments and contingencies (continued)

As liabilities in respect of the Group's environmental obligations are able to be determined, they are recognised in profit or loss. The likelihood and amount of liabilities relating to environmental obligations under proposed or any future legislation cannot be reasonably estimated at present and could become material. Under existing legislation, however, management believes that there are no significant unrecorded liabilities or contingencies, which could have a materially adverse effect on the operating results or financial position of the Group.

Social assets

Certain Group companies contribute to Government sponsored programs, the maintenance of local infrastructure and the welfare of their employees within the Russian Federation and elsewhere. Such contributions include assistance with the construction, development and maintenance of housing, hospitals and transport services, recreation and other social needs. The funding of such assistance is periodically determined by management and is appropriately capitalised or expensed as incurred.

Taxation environment

The taxation systems in the Russian Federation and other emerging markets where Group companies operate are relatively new and are characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among different tax authorities within the same jurisdictions and among taxing authorities in different jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose substantial fines, penalties and interest charges. In the Russian Federation a tax year remains open for review by the tax authorities during three subsequent calendar years. However, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation. Such factors significantly increase taxation risks in the Russian Federation and other emerging markets where Group companies operate, comparing to other countries where taxation regimes have been subject to development and clarification over longer periods.

The tax authorities in each region of the Russian Federation may have a different interpretation of similar taxation issues which may result in taxation issues successfully defended by the Group in one region being unsuccessfully defended by the Group in another region. There is some direction provided from the central authority based in Moscow on particular taxation issues.

The Group has implemented tax planning and management strategies based on existing legislation. The Group is subject to tax authority audits on an ongoing basis, which is a normal practice in the Russian Federation and other republics of the former Soviet Union, and, at times, the authorities have attempted to impose additional significant taxes on the Group. Management believes that it has adequately met the requirements and provided for tax liabilities based on its interpretation of existing tax legislation. However, the relevant tax authorities may have differing interpretations and the effects on the consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Litigation and claims

In July 2015, the prosecutors with the Ploesti Court of Appeals (hereinafter the "Prosecutor's Office") charged the general director and several officers of PETROTEL-LUKOIL S.A., a Group company, with bad faith use of the company's credit and money laundering. Similar charges were brought against LUKOIL Europe Holdings B.V., a Group company, for 2010–2014. On 10 May 2016, the Prahova Tribunal lifted all preventive measures that were in effect against the accused individuals. Upon preliminary hearings the Prosecutor's Office revised the amount of damage claimed from \$2.2 billion (152.8 billion RUB) to \$1.5 billion (104.2 billion RUB). An expertise of all relevant issues of the criminal case was carried out during 2017, the results of which were accepted by the Tribunal on 12 February 2018.

Note 28. Commitments and contingencies (continued)

At the final hearing on the case which was held 23 October 2018 the court issued a not guilty decision to all the accused, including general director of PETROTEL-LUKOIL S.A., his deputies and PETROTEL-LUKOIL S.A. and LUKOIL Europe Holdings B.V. itself. As a result freezing injunction in the amount of approximately \$1.5 billion (104.2 billion RUB) was removed from all assets of the refinery, shares and accounts of PETROTEL-LUKOIL S.A. and LUKOIL Europe Holdings B.V. On 1 November 2018, this decision was appealed by the Prosecutor's Office. It is expected that the hearing of the appeal will take place in May – June 2019. Management does not believe that the outcome of this matter will have a material adverse effect on the Group's financial position.

LUKOIL Overseas Karachaganak B.V., a Group company, among other contractors, is involved in the disputes with the Republic of Kazakhstan with respect to cost recovery in 2010–2014 (the "CR") and the calculation of the "Fairness index" (the "FI") in accordance with the Final Production Sharing Agreement relating to the Contract Area of the Karachaganak Oil and Gas Condensate Field. In relation to the CR, the parties are making efforts to resolve the dispute through negotiations and in relation to the FI the parties are taking part in an arbitration which is at its initial stage, and management believes that the amounts of claims, as well as calculations of potential losses arising from these disputes to be preliminary and should not be disclosed in order to avoid any adverse impact on the arbitration process and the positions of the parties therein. At the same time management does not preclude the possibility of settlement of the FI related dispute and believes that the final outcome of the above mentioned disputes will not have a material adverse effect on the Group's financial position.

The Group is involved in various other claims and legal proceedings arising in the normal course of business. While these claims may seek substantial damages against the Group and are subject to uncertainty inherent in any litigation, management does not believe that the ultimate resolution of such matters will have a material adverse impact on the Group's operating results or financial condition.

Political situation

In July – September 2014, the United States ("US"), the European Union ("EU") and several other countries imposed a set of sanctions on Russia, including sectoral sanctions which affect several Russian oil and gas companies. The US has placed the Company onto the Sectoral Sanctions Identifications List subject to Directive 4. Directive 4 prohibits US companies and individuals from providing, exporting, or re-exporting directly or indirectly, goods, services (except for financial services), or technology in support of exploration or production for deepwater, Arctic offshore or shale projects that have the potential to produce oil in the Russian Federation, or in maritime area claimed by the Russian Federation and extending from its territory.

In August – October 2017, the US expanded abovementioned sanctions to include international oil projects initiated on or after 29 January 2018 that have the potential to produce oil in any location, and in which companies placed on the Sectoral Sanctions Identifications List (subject to Directive 4) have an ownership interest of 33% or more, or ownership of a majority of the voting interests.

Management believes that current sanctions do not have a material adverse effect on the Group's oil projects. At the same time the Company continues to monitor and evaluate potential risks for its operations in connection with sanctions.

The Group is exposed to political, economic and legal risks due to its operations in Iraq. Management monitors these risks and believes that there is no adverse effect on the Group's financial position that can be reasonably estimated at present.

Note 29. Related party transactions

The senior management of the Company believes that the Group has appropriate procedures in place to identify and properly disclose transactions with related parties and has disclosed all of the relationships identified which it deemed to be significant. Related party sales and purchases of oil and oil products were primarily to and from associates and joint ventures. Other financial assets mostly represent loans given to associates and joint ventures.

Note 29. Related party transactions (continued)

Outstanding balances with related parties were as follows:

	31 December 2018	31 December 2017
Accounts receivable	1,927	10,567
Other financial assets	64,007	82,288
Total assets	65,934	92,855
Accounts payable	13,492	6,696
Loans and borrowings	3,356	3,170
Total liabilities	16,848	9,866

Related party transactions were as follows:

	2018	2017
Sales of oil and oil products	35,325	14,927
Other sales	4,593	4,055
Purchases of oil and oil products	209,599	86,548
Other purchases	9,690	7,388
Proceeds from sale of other financial assets, net	18,749	6,948
Proceeds from issuance (principal repayments) of loans, net	23	(798)

During 2017, a Group company acquired from a related party 3,300,000 shares of the Company for 9,474 million RUB.

Key management remuneration

Key management personnel includes members of the Board of Directors and members of the Management Board. Remuneration of key management personnel, including basic salary, bonuses and other payments, amounted to 1,518 million RUB and 1,588 million RUB during 2018 and 2017, respectively.

Also, during 2018, a provision under the new compensation plan (disclosed in Note 30 “Compensation plan”) was accrued in relation to the Company’s key management personnel in the amount of 3,137 million RUB.

Note 30. Compensation plan

During the period from 2013 to 2017, the Company had a compensation plan available to certain members of management, which was based on assigned shares and provided compensation consisting of two parts. The first part represented annual bonuses that were based on the number of assigned shares and amount of dividend per share. The payment of these bonuses was contingent on the Group meeting certain financial KPIs in each financial year. The second part was based upon the Company’s common shares appreciation from 2013 to 2017, with rights vested in December 2017. The number of assigned shares for this compensation plan was approximately 19 million shares.

For the first part of the share plan the Group recognised a liability based on expected dividends and number of assigned shares. The second part of the share plan was also classified as cash-settled. The grant date fair value of this part of the plan was estimated at 7.6 billion RUB, using the Black-Scholes-Merton option-pricing model. The fair value was estimated assuming a risk-free interest rate of 6.50% per annum, an expected dividend yield of 4.09% per annum, an expected time to maturity of five years and a volatility factor of 16.10%. The expected volatility factor for the annual weighted average share price was estimated based on the historical volatility of the Company’s shares for the previous seven year period up to January 2013. All the liabilities related to this plan were settled.

In late December 2017, the Company announced a new compensation plan based on approximately 40 million shares available to certain members of management and key employees for the period from 2018 to 2022, which was implemented in July 2018 and recognised as equity-settled share-based compensation plan.

Note 30. Compensation plan (continued)

The fair value of the plan was estimated at the grant date at 156.8 billion RUB based on forecasting principles of Monte-Carlo model and is not going to be recalculated in the future. The fair value was estimated assuming a spot-price of the Company's share in the amount of 4,355 RUB at the grant date, discount for illiquidity in the amount of 9.95% per annum, a risk-free interest rate of 7.50% per annum, an expected dividend yield of 4.99% per annum, an expected time to maturity of five years and a volatility factor of 25.68%. The expected volatility factor was estimated based on the historical volatility of the Company's shares for the previous five years. The vesting of shares is contingent on meeting the requisite service period, certain KPIs and share price appreciation. The Group is planning to recognise expenses related to the plan evenly during the vesting period.

Related to these share plans the Group recognized compensation expenses of 31,300 million RUB and 1,135 million RUB during 2018 and 2017, respectively.

Note 31. Segment information

The Group has the following operating segments – exploration and production; refining, marketing and distribution; corporate and other. These segments have been determined based on the nature of their operations. Management on a regular basis assesses the performance of these operating segments.

The exploration and production segment explores for, develops and produces primarily crude oil. The refining, marketing and distribution segment processes crude oil into refined products, purchases, sells and transports crude oil and refined petroleum products, refines and sells chemical products, produces steam and electricity, distributes them and provides related services. The corporate and other business operating segment includes activities of the Company and businesses beyond the Group's traditional operations.

Geographical segments are based on the area of operations and include two segments: Russia and International.

Operating earnings are supplemental non-IFRS financial measure used by management to evaluate segments performance. Operating earnings are defined as profit before finance income and expense, income tax expense, depreciation, depletion and amortisation.

Operating segments

2018	Exploration and production	Refining, marketing and distribution	Corporate and other	Elimination	Consolidated
Sales and other operating revenues					
Third parties	247,657	7,763,810	24,422	-	8,035,889
Inter-segment	2,143,810	70,529	46,639	(2,260,978)	-
Total revenues	2,391,467	7,834,339	71,061	(2,260,978)	8,035,889
Operating expenses	273,012	243,214	19,554	(71,313)	464,467
Selling, general and administrative expenses	38,559	127,089	61,733	(34,948)	192,433
Profit (loss) for the year	508,401	156,805	(28,401)	(17,631)	619,174
Operating earnings	888,816	291,947	(26,458)	(21,361)	1,132,944
Income tax expense					(151,917)
Finance income					19,530
Finance costs					(38,298)
Depreciation, depletion and amortisation					(343,085)
Profit for the year attributable to PJSC LUKOIL shareholders					619,174

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Note 31. Segment information (continued)

2017	Exploration and production	Refining, marketing and distribution	Corporate and other	Elimination	Consolidated
Sales and other operating revenues					
Third parties	160,780	5,745,957	29,968	-	5,936,705
Inter-segment	1,553,442	71,140	45,522	(1,670,104)	-
Total revenues	1,714,222	5,817,097	75,490	(1,670,104)	5,936,705
Operating expenses	265,911	235,052	21,432	(65,630)	456,765
Selling, general and administrative expenses	48,671	129,902	25,496	(38,738)	165,331
Profit for the year	269,670	135,102	15,466	(1,433)	418,805
Operating earnings	560,861	267,412	31,081	447	859,801
Income tax expense					(103,762)
Finance income					15,151
Finance costs					(27,331)
Depreciation, depletion and amortisation					(325,054)
Profit for the year attributable to PJSC LUKOIL shareholders					418,805

Geographical segments

	2018	2017
Sales of crude oil within Russia	47,508	37,525
Export of crude oil and sales of crude oil by foreign subsidiaries	2,666,156	1,641,238
Sales of petroleum products within Russia	938,092	776,002
Export of petroleum products and sales of petroleum products by foreign subsidiaries	3,961,784	3,144,226
Sales of chemicals within Russia	46,085	34,451
Export of chemicals and sales of chemicals by foreign subsidiaries	67,682	48,187
Sales of gas within Russia	33,352	31,109
Sales of gas by foreign subsidiaries	112,990	54,611
Sales of energy and related services within Russia	54,353	61,028
Sales of energy and related services by foreign subsidiaries	15,600	12,884
Other sales within Russia	46,127	45,727
Other export sales and other sales of foreign subsidiaries	46,160	49,717
Total sales	8,035,889	5,936,705

2018	Russia	International	Elimination	Consolidated
Sales and other operating revenues				
Third parties	1,269,047	6,766,842	-	8,035,889
Inter-segment	1,621,187	3,270	(1,624,457)	-
Total revenues	2,890,234	6,770,112	(1,624,457)	8,035,889
Operating expenses	333,749	129,515	1,203	464,467
Selling, general and administrative expenses	96,486	99,755	(3,808)	192,433
Profit for the year	588,479	50,433	(19,738)	619,174
Operating earnings	956,807	193,166	(17,029)	1,132,944

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Note 31. Segment information (continued)

2017	Russia	International	Elimination	Consolidated
Sales and other operating revenues				
Third parties	1,064,086	4,872,619	-	5,936,705
Inter-segment	1,197,440	3,713	(1,201,153)	-
Total revenues	2,261,526	4,876,332	(1,201,153)	5,936,705
Operating expenses	333,178	117,467	6,120	456,765
Selling, general and administrative expenses	97,804	72,724	(5,197)	165,331
Profit for the year	381,351	40,411	(2,957)	418,805
Operating earnings	706,878	155,649	(2,726)	859,801

In the International segment the Group receives the most substantial revenues in Switzerland, the USA and Singapore.

	2018	2017
Sales revenues		
in Switzerland	3,739,647	2,755,567
in the USA	922,045	572,264
in Singapore	684,276	457,913

These amounts are attributed to individual countries based on the jurisdiction of subsidiaries making the sale.

Note 32. Subsidiaries

The most significant subsidiaries of the Group are presented below:

Subsidiary	Country of incorporation	31 December 2018		31 December 2017	
		Total shares	Voting shares	Total shares	Voting shares
LUKOIL-West Siberia LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-PERM LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Komi LLC	Russia	100.00%	100.00%	100.00%	100.00%
RITEK LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Permnefteorgsintez LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Nizhegorodnefteorgsintez LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Nizhnevolzhskneft LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Volgogradneftepererabotka LLC	Russia	100.00%	100.00%	100.00%	100.00%
ISAB S.r.l.	Italy	100.00%	100.00%	100.00%	100.00%
LITASCO SA	Switzerland	100.00%	100.00%	100.00%	100.00%
LUKARCO B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
LUKOIL INTERNATIONAL GmbH	Austria	100.00%	100.00%	100.00%	100.00%
LUKOIL International Upstream Holding B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
LUKOIL Neftohim Burgas AD	Bulgaria	99.85%	99.85%	99.83%	99.83%
LUKOIL Overseas Karachaganak B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
LUKOIL Overseas Shah Deniz Ltd.	Cyprus	100.00%	100.00%	100.00%	100.00%
LUKOIL Overseas Uzbekistan Ltd.	Cyprus	100.00%	100.00%	100.00%	100.00%
SOYUZNEFTEGAZ VOSTOK LIMITED	Cyprus	100.00%	100.00%	100.00%	100.00%

Note 33. Fair value

There are the following methods of fair value measurement based on the valuation method:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3 – unobservable inputs.

Note 33. Fair value (continued)

The following tables show the carrying amounts and fair values of financial assets and financial liabilities included in the consolidated statement of financial position at 31 December 2018 and 2017:

31 December 2018	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Commodity derivative contracts	8,676	-	8,676	-	8,676
Financial assets at fair value through profit or loss	64,038	-	-	64,038	64,038
Financial assets at fair value through other comprehensive income	3,388	3,388	-	-	3,388
Financial liabilities:					
Commodity derivative contracts	8,413	-	8,413	-	8,413
Loans and borrowings	506,319	321,535	-	192,519	514,054

31 December 2017	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Commodity derivative contracts	11,634	-	11,634	-	11,634
Available for sale securities	5,106	5,106	-	-	5,106
Financial liabilities:					
Commodity derivative contracts	11,978	-	11,978	-	11,978
Loans and borrowings	597,691	368,811	-	260,214	629,025

The fair values of cash and cash equivalents (Level 1), current and long-term accounts receivable (Level 3) are approximately equal to their value as disclosed in the consolidated statement of financial position. The fair value of long-term receivables was determined by discounting with estimated market interest rates for similar financing arrangements. The fair value of long-term loans (Level 3) was determined as a result of discounting using estimated market interest rates for similar financing arrangements. These amounts include all future cash outflows associated with the long-term debt repayments, including the current portion and interest. Market interest rates mean the rates of raising long-term debt by companies with a similar credit rating for similar tenors, repayment schedules and other similar main terms. The fair value of bonds (Level 1) was determined based on market quotations at 31 December 2018 and 2017.

Note 34. Capital and risk management

The Group's governing bodies pay great attention to risk management issues to provide a reasonable guarantee for the achievement of the set objectives under the conditions characterized by uncertainties and negative impact factors. The Group is constantly identifying, describing, estimating and monitoring the possible events that may affect its activities, and is elaborating measures to prevent them or mitigate their negative impact to the greatest extent possible if such events do take place.

The Group seeks to actively promote risk management and is presently focusing its efforts on the improvement of a general enterprise risk management system (ERM) based on the best international practices. The Group is constantly improving the applicable regulatory methodological risk management base that establishes requirements aimed at organizing the risk management process at all stages, and defines management standards for certain risk types of utmost importance, which are uniform for all of Group organizations. The Risk Committee, a dedicated body under the President of the Company, was set up and began its work in 2011.

Note 34. Capital and risk management (continued)

The information with regard to key financial risks of the Group is presented below.

Credit risk

The Group's most significant credit risks include first of all the risk of failure by its counterparties to perform their obligations in terms of payment for the products supplied by the Group. In order to mitigate these risks, the Group focuses on partnerships with counterparties that have high credit ratings, accepts letters of credit and guarantees issued by reputable banks and sometimes demands prepayment for the products supplied. In addition, it utilizes tools to limit the credit risks of a given counterparty.

Another group of credit risks includes risks associated with contractor banks' activities and potential impairment of their financial stability. In order to mitigate these risks, the Group is involved in centralized treasury operations, part of which are aimed at fund raising, investment and operations involving currency exchange and financial derivatives. The credit ratings of contractor banks are monitored on a regular basis.

The carrying amount of financial assets represents the maximum exposure to credit risk.

Trade and other receivables

Analysis of the aging of receivables:

	31 December 2018	31 December 2017
Not past due	381,900	356,538
Past due less than 45 days	14,051	29,710
Past due from 46 to 180 days	14,464	7,364
Past due from 181 to 270 days	3,129	7,306
Past due from 271 to 365 days	1,964	5,234
Past due more than 365 days	14,437	12,120
Total trade and other receivables	429,945	418,272

Not past due accounts receivable are not considered of high credit risk.

Allowance for expected credit losses changed as follows during 2018:

31 December 2017	21,959
Adjustment on adoption of IFRS 9, before tax	7,200
1 January 2018	29,159
Decrease in allowance charged to profit or loss	(1,005)
Write-off	(3,964)
Foreign currency translation differences	2,641
Other	967
31 December 2018	27,798

Allowance for doubtful accounts receivable changed as follows during 2017:

1 January 2017	20,189
Increase in allowance charged to profit or loss	6,130
Write-off	(2,922)
Foreign currency translation differences	(579)
Other	(859)
31 December 2017	21,959

Financial instruments used by the Group and potentially exposed to concentrations of credit risk consist primarily of cash equivalents, over-the-counter production contracts and trade receivables. The cash and cash equivalents are held with banks, which are generally highly rated.

Note 34. Capital and risk management (continued)

The credit risk from the Group's over-the-counter derivative contracts, such as forwards and swaps, derives from the counterparty to the transaction, typically a major bank or financial institution. Individual counterparty exposure is managed within predetermined credit limits and includes the use of cash-call margins when appropriate, thereby reducing the risk of significant non-performance. The Group also uses futures contracts, but futures have a negligible credit risk because they are traded on the New York Mercantile Exchange or the Intercontinental Exchange (ICE Futures).

Liquidity risk

The Group's liquidity is managed on a centralized basis. There is an efficient global system in place to manage the Group's liquidity, which includes an automated system of concentrating and re-distributing the funds, corporate dealing and also rolling cash-flow forecasts. The liquidity indicators are monitored on a continuous basis.

Contractual maturities of the Group's financial liabilities (the Group itself determines the grouping of the maturity based on contractual maturities and, where relevant, on judgment):

	Carrying amount	Contractual cash flows (undiscounted)	Less than 12 months	1–2 years	2–5 years	Over 5 years
Loans and borrowings, including interest expense	190,704	221,656	61,445	34,972	72,107	53,132
Bonds, including interest expense	321,681	378,851	56,207	79,734	160,426	82,484
Finance lease obligations	25,973	33,653	6,069	6,078	16,124	5,382
Trade and other payables	537,519	537,519	535,882	1,076	474	87
Derivative financial liabilities	8,413	8,413	8,413	-	-	-
31 December 2018	1,084,290	1,180,092	668,016	121,860	249,131	141,085

	Carrying amount	Contractual cash flows (undiscounted)	Less than 12 months	1–2 years	2–5 years	Over 5 years
Loans and borrowings, including interest expense	263,202	304,938	52,147	50,855	158,868	43,068
Bonds, including interest expense	353,595	421,167	103,998	46,588	111,993	158,588
Finance lease obligations	2,846	5,344	1,398	1,311	2,635	-
Trade and other payables	545,734	545,734	545,113	192	319	110
Derivative financial liabilities	11,978	11,978	11,978	-	-	-
31 December 2017	1,177,355	1,289,161	714,634	98,946	273,815	201,766

Currency risk

The Group is subject to foreign exchange risks since it operates in a number of countries. The exchange rate of the Russian ruble to the US dollar produces the greatest impact on transaction results, since the Group's export proceeds are denominated in dollars, while the major costs are incurred in Russia and are denominated in Russian rubles.

As part of the centralized approach to management of the treasury operations and liquidity of the Group, the risks associated with unfavorable changes in the exchange rates are generally consolidated at the corporate level. In a number of cases currency risks at trading floors are minimized due to the financial derivative operations conducted as part of the corporate dealing process.

Note 34. Capital and risk management (continued)

The carrying amounts of the Group's assets and liabilities which form currency risk at 31 December 2018 and 2017 are presented in the tables below and contain balances between Group companies whose functional currency is different from the currency of the contract.

31 December 2018	USD	EUR	Other currencies
Financial assets:			
Cash and cash equivalents	6,864	15,701	1,162
Trade and other receivables	152,115	3,855	4,553
Loans	178,993	-	-
Other financial assets	1,421	30	233
Financial liabilities:			
Loans and borrowings	(364,268)	(15,238)	-
Trade and other payables	(57,641)	(8,605)	(10,645)
Net exposure	(82,516)	(4,257)	(4,697)

31 December 2017	USD	EUR	Other currencies
Financial assets:			
Cash and cash equivalents	68,136	11,781	1,034
Trade and other receivables	162,005	1,787	4,727
Loans	175,173	3,548	-
Other financial assets	2,181	6	12
Financial liabilities:			
Loans and borrowings	(103,680)	(33,041)	(87)
Trade and other payables	(68,694)	(5,688)	(7,146)
Net exposure	235,121	(21,607)	(1,460)

The following exchange rates applied:

	31 December 2018	31 December 2017
USD	69.47	57.60
EUR	79.46	68.87

Sensitivity analysis

Analysis of the currency position shows that the Group mainly uses RUR, US dollar and EUR in its operating activity. Thus sensitivity analysis shows how strengthening (weakening) of these currencies at 31 December 2018 and 2017 would have affected the measurement of financial assets and liabilities denominated in foreign currencies and affected profit (loss) before taxes. The analysis assumes that all other variables remain constant.

	Profit (loss)	
	2018	2017
US Dollar (increase by 10%)	(7,726)	22,026
Euro (increase by 10%)	2,566	(249)
Russian ruble (increase by 10%)	4,937	(19,384)

The weakening of these currencies by 10% will have equal effect on profit (loss) but with opposite sign.

Interest rate risk

The Group is exposed to a significant interest rate risk both in the short- and long-term. A change in interest rates may affect the cost of funds borrowed by the Group as well as the size of cash flows.

Note 34. Capital and risk management (continued)

To mitigate this risk, the Group is constantly monitoring market conditions, taking measures to improve the debt structure by reaching an optimum balance between fixed and variable interest rates, controlling the need for additional financing and outstanding debt refinancing, extending the term of debt obligations.

The interest rate profiles of the Group are presented below:

	31 December 2018	31 December 2017
<i>Fixed rate instruments:</i>		
Financial assets	92,124	45,354
Financial liabilities	(354,566)	(367,525)
Net exposure	(262,442)	(322,171)
<i>Variable rate instruments:</i>		
Financial assets	14,175	49,244
Financial liabilities	(180,481)	(248,835)
Net exposure	(166,306)	(199,591)

Sensitivity analysis for variable rate instruments

A reasonably possible change of 100 basis points in interest rates at 31 December 2018 and 2017 would have increased (decreased) profit (loss) before taxes by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit (loss) before taxes	
	100 bp increase	100 bp decrease
2018		
Net financial liabilities	(1,663)	1,663
2017		
Net financial liabilities	(1,996)	1,996

Capital management

The Group's capital management objectives are to secure the ability to continue as a going concern and to optimize the cost of capital in order to enhance value to shareholders. The Company's management performs regular assessment of the net debt to capital ratio to ensure it meets the Company's current rating requirements. The capital consists of debt obligations, which include long and short-term loans and borrowings, equity that includes share capital, reserves and retained earnings, as well as non-controlling interests. Net debt is a non-IFRS measure and is calculated as a sum of loans and borrowings, as presented in the consolidated statement of financial position, less cash and cash equivalents. Net debt to equity ratio enables the users to see how significant net debt is.

The Group's net debt to equity ratio was as follows:

	31 December 2018	31 December 2017
Total debt	535,047	616,360
Less cash and cash equivalents	(492,650)	(330,390)
Net debt	42,397	285,970
Equity	4,073,526	3,490,399
Net debt to equity ratio	1.04%	8.19%

PJSC LUKOIL**Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)**
(Millions of Russian rubles, unless otherwise noted)**Supplementary Information on Oil and Gas Exploration and Production Activities**

IFRS do not require the information on oil and gas reserves to be disclosed in consolidated financial statements. However, management believes that this supplementary information will benefit the users of consolidated financial statements of the Group.

The information on oil and gas exploration and production activities is presented in six separate tables:

- I. Capitalised costs relating to oil and gas producing activities.
- II. Costs incurred in oil and gas property acquisition, exploration, and development activities.
- III. Results of operations for oil and gas producing activities.
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Amounts shown for equity companies represent the Group's share in its exploration and production affiliates, which are accounted for using the equity method of accounting.

I. Capitalised costs relating to oil and gas producing activities

31 December 2018	International	Russia	Total consolidated companies	Group's share in equity companies
Unproved oil and gas properties	86,809	93,344	180,153	31,093
Proved oil and gas properties	1,368,594	2,928,077	4,296,671	287,271
Accumulated depreciation, depletion, and amortisation	(742,820)	(843,688)	(1,586,508)	(98,981)
Net capitalised costs	712,583	2,177,733	2,890,316	219,383

31 December 2017	International	Russia	Total consolidated companies	Group's share in equity companies
Unproved oil and gas properties	61,885	78,372	140,257	22,684
Proved oil and gas properties	1,104,857	2,657,153	3,762,010	185,749
Accumulated depreciation, depletion, and amortisation	(571,017)	(659,700)	(1,230,717)	(53,333)
Net capitalised costs	595,725	2,075,825	2,671,550	155,100

II. Costs incurred in oil and gas property acquisition, exploration, and development activities

2018	International	Russia	Total consolidated companies	Group's share in equity companies
Acquisition of properties – unproved	924	153	1,077	-
Exploration costs	11,678	17,677	29,355	686
Development costs	51,770	286,781	338,551	11,202
Total costs incurred	64,372	304,611	368,983	11,888

2017	International	Russia	Total consolidated companies	Group's share in equity companies
Acquisition of properties – proved	-	1,520	1,520	-
Acquisition of properties – unproved	-	2,972	2,972	-
Exploration costs	6,715	26,791	33,506	1,382
Development costs	129,468	299,738	429,206	8,897
Total costs incurred	136,183	331,021	467,204	10,279

PJSC LUKOIL**Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)**
(Millions of Russian rubles, unless otherwise noted)***III. Results of operations for oil and gas producing activities***

The Group's results of operations for oil and gas producing activities are presented below. Sales and transfers to Group companies are based on market prices, income taxes are based on statutory rates. The results of operations exclude corporate overhead and interest costs.

2018	International	Russia	Total consolidated companies	Group's share in equity companies
Revenue				
Sales	192,648	1,023,155	1,215,803	63,318
Transfers	-	951,069	951,069	1,432
Total revenues	192,648	1,974,224	2,166,872	64,750
Production costs (excluding production taxes)	(38,684)	(175,131)	(213,815)	(6,469)
Exploration expenses	(1,872)	(1,710)	(3,582)	(25)
Depreciation, depletion, and amortisation	(69,471)	(176,885)	(246,356)	(7,960)
Taxes other than income taxes	(716)	(1,071,761)	(1,072,477)	(16,483)
Related income taxes	(8,108)	(97,572)	(105,680)	(13,476)
Total results of operations for producing activities	73,797	451,165	524,962	20,337

2017	International	Russia	Total consolidated companies	Group's share in equity companies
Revenue				
Sales	112,088	704,254	816,342	47,044
Transfers	-	705,802	705,802	1,243
Total revenues	112,088	1,410,056	1,522,144	48,287
Production costs (excluding production taxes)	(31,405)	(177,554)	(208,959)	(6,125)
Exploration expenses	(2,775)	(9,573)	(12,348)	(21)
Depreciation, depletion, and amortisation	(43,949)	(174,683)	(218,632)	(7,446)
Taxes other than income taxes	(475)	(709,670)	(710,145)	(10,955)
Related income taxes	(6,766)	(53,041)	(59,807)	(8,544)
Total results of operations for producing activities	26,718	285,535	312,253	15,196

IV. Reserve quantity information

Proved reserves are the estimated quantities of oil and gas reserves which according to geological and engineering data are going to be recoverable with reasonable certainty in future years from known reservoirs under existing economic and operating conditions. Existing economic and operating conditions are based on the 12-months average price and the year-end costs. Proved reserves do not include additional quantities of oil and gas reserves that may result from applying secondary or tertiary recovery techniques not yet tested and determined to be economic.

Proved developed reserves are the quantities of proved reserves expected to be recovered through existing wells with existing equipment and operating methods.

Due to the inherent uncertainties and the necessarily limited nature of reservoir data, estimates of reserves are inherently imprecise, require the application of judgment and are subject to change as additional information becomes available.

Management has included within proved reserves significant quantities which the Group expects to produce after the expiry dates of certain of its current production licenses in the Russian Federation. The Subsoil Law of the Russian Federation states that, upon expiration, a license is subject to renewal at the initiative of the license holder provided that further exploration, appraisal, production or remediation activities are necessary and provided that the license holder has not violated the terms of the license. Since the law applies to both newly issued and old licenses and the Group has currently renewed 67% of its licenses, management believes that licenses will be renewed upon their expiration for the remainder of the economic life of each respective field.

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(Millions of Russian rubles, unless otherwise noted)

Estimated net proved oil and gas reserves and changes thereto for 2018 and 2017 are shown in the tables set out below.

Millions of barrels	Consolidated subsidiaries			Group's share in equity companies
	International	Russia	Total	
Crude oil				
31 December 2016	628	11,561	12,189	293
Revisions of previous estimates	(128)	(55)	(183)	(5)
Purchase of hydrocarbons in place	-	11	11	-
Extensions and discoveries	8	408	416	14
Production	(29)	(609)	(638)	(20)
31 December 2017	479	11,316	11,795	282
Revisions of previous estimates	(148)	273	125	16
Purchase of hydrocarbons in place	-	3	3	-
Extensions and discoveries	12	500	512	8
Production	(27)	(614)	(641)	(18)
31 December 2018	316	11,478	11,794	288
Proved developed reserves				
31 December 2017	250	7,331	7,581	131
31 December 2018	204	7,602	7,806	133

The non-controlling interest share included in the above total proved reserves was 73 million barrels and 94 million barrels at 31 December 2018 and 2017, respectively. The non-controlling interest share included in the above proved developed reserves was 39 million barrels and 57 million barrels at 31 December 2018 and 2017, respectively. All non-controlling interests relate to reserves in the Russian Federation.

Billions of cubic feet	Consolidated subsidiaries			Group's share in equity companies
	International	Russia	Total	
Natural gas				
31 December 2016	7,058	16,270	23,328	165
Revisions of previous estimates	157	563	720	29
Extensions and discoveries	140	281	421	5
Production	(349)	(638)	(987)	(32)
31 December 2017	7,006	16,476	23,482	167
Revisions of previous estimates	(158)	351	193	98
Purchase of hydrocarbons in place	-	2	2	-
Extensions and discoveries	37	297	334	2
Production	(533)	(626)	(1,159)	(26)
31 December 2018	6,352	16,500	22,852	241
Proved developed reserves:				
31 December 2017	5,409	5,558	10,967	121
31 December 2018	5,072	5,758	10,830	146

The non-controlling interest share included in the above total proved reserves was 27 billion cubic feet at 31 December 2018 and 2017. The non-controlling interest share included in the above proved developed reserves was 14 and 13 billion cubic feet at 31 December 2018 and 2017, respectively. All non-controlling interests relate to reserves in the Russian Federation.

PJSC LUKOIL**Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)**
(Millions of Russian rubles, unless otherwise noted)***V. Standardised measure of discounted future net cash flows***

Estimated future cash inflows from hydrocarbons production are computed by applying the 12-months average price for oil and gas and the year-end exchange rates to year-end quantities of estimated net proved reserves. Adjustments in this calculation for future price changes are limited to those required by contractual arrangements in existence at the end of each reporting year. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end estimated proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pre-tax net cash flows, less the tax bases of related assets. Discounted future net cash flows have been calculated using a ten percent discount factor. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced.

The information provided in the tables set out below does not represent management's estimate of the Group's expected future cash flows or of the value of the Group's proved oil and gas reserves. Estimates of proved reserve quantities are imprecise and change over time as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The arbitrary valuation requires assumptions as to the timing and amount of future development and production costs. The calculations should not be relied upon as an indication of the Group's future cash flows or of the value of its oil and gas reserves.

31 December 2018	International	Russia	Total consolidated companies	Group's share in equity companies
Future cash inflows	2,938,283	49,617,947	52,556,230	1,207,677
Future production and development costs	(1,620,666)	(36,498,385)	(38,119,051)	(746,756)
Future income tax expenses	(131,008)	(2,297,381)	(2,428,389)	(139,882)
Future net cash flows	1,186,609	10,822,181	12,008,790	321,039
Discount for estimated timing of cash flows (10% p.a.)	(449,443)	(5,922,682)	(6,372,125)	(162,831)
Discounted future net cash flows	737,166	4,899,499	5,636,665	158,208
Non-controlling share in discounted future net cash flows	-	36,032	36,032	-
31 December 2017	International	Russia	Total consolidated companies	Group's share in equity companies
Future cash inflows	2,460,227	23,774,561	26,234,788	685,571
Future production and development costs	(1,663,223)	(17,196,531)	(18,859,754)	(447,375)
Future income tax expenses	(54,737)	(1,018,876)	(1,073,613)	(43,283)
Future net cash flows	742,267	5,559,154	6,301,421	194,913
Discount for estimated timing of cash flows (10% p.a.)	(331,525)	(3,110,698)	(3,442,223)	(100,127)
Discounted future net cash flows	410,742	2,448,456	2,859,198	94,786
Non-controlling share in discounted future net cash flows	-	22,136	22,136	-

PJSC LUKOIL**Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)**
(Millions of Russian rubles, unless otherwise noted)***VI. Principal sources of changes in the standardised measure of discounted future net cash flows***

Consolidated companies	2018	2017
Discounted present value at 1 January	2,859,198	2,379,847
Net changes due to purchases and sales of minerals in place	1,367	2,167
Sales and transfers of oil and gas produced, net of production costs	(876,998)	(590,692)
Net changes in prices and production costs estimates	11,583,655	1,641,159
Net changes in mineral extraction taxes	(8,206,395)	(1,129,879)
Extensions and discoveries, less related costs	257,337	104,704
Previously estimated development cost incurred during the year	300,233	349,720
Revisions of previous quantity estimates	31,469	(26,040)
Net change in income taxes	(626,197)	(44,824)
Accretion of discount	312,181	262,831
Other changes	815	(89,795)
Discounted present value at 31 December	5,636,665	2,859,198
Group's share in equity companies	2018	2017
Discounted present value at 1 January	94,786	45,250
Sales and transfers of oil and gas produced, net of production costs	(41,773)	(31,186)
Net changes in prices and production costs estimates	227,904	101,022
Net changes in mineral extraction taxes	(131,737)	(47,336)
Extensions and discoveries, less related costs	4,258	4,402
Previously estimated development cost incurred during the year	29,688	27,167
Revisions of previous quantity estimates	15,001	(316)
Net change in income taxes	(46,305)	(7,185)
Accretion of discount	11,273	5,791
Other changes	(4,887)	(2,823)
Discounted present value at 31 December	158,208	94,786